0000120756

29

SON

The Sunshine City

P.O. BOX 27210
TUCSON, ARIZONA 85726-7210

RECEIVED
AZ CORP COMMISSION
MAR 13 4 54 PM '98
DOCUMENT CONTROL

OFFICE OF
THE
CITY ATTORNEY
(520) 791-4221

March 13, 1998

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED
MAR 13 1998
DOCKETED BY

Re: City of Tucson's Post-Hearing Memorandum
Docket No. U-0000-94-165

Enclosed for filing, please find the original and 10 copies of the City of Tucson's Post-Hearing Memorandum In the Matter of the Completion in the Provision of Electric Services Throughout the State of Arizona.

I have also forwarded copies of the Memorandum to your office at the request of the parties on the attached list.

Sincerely,

Loretta Humphrey

Loretta Humphrey
Principal Assistant City Attorney

LH:lr

Enclosures

RECYCLED PAPER

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Arizona Corporation Commission
Attn.: Jerry Rudibaugh, Chief Hearing Officer

Arizona Corporation Commission
Attn.: Paul Bullis, Chief Counsel

Arizona Corporation Commission
Attn.: David Jankofsky, Assistant Director

Brown & Bain, P.A.
Attn.: Lex Smith

Citizens Utilities Company
Attn.: Craig Marks

Electric Competition Coalition
Attn.: Doug Nelson

Department of the Navy
Attn.: Norman Furuta
Sam DeFrawi

Tucson Electric Power Company
Attn.: Bradley S. Carroll

Residential Utility Consumer Office
Attn.: Deborah Scott

Fennemore Craig
Attn.: C. Webb Crockett

Arizona Public Service Company
Attn.: Barbara Klemstine

Land and Water Fund
Attn.: Bruce Driver

Goldwater Institute
Attn.: Robert Franciosi

Arizona Corporation Commission
Attn.: Chris Kempley

Navopache Electric Coop.
Attn.: Alan Propper

RECEIVED
AZ CORP COMMISSION
MAR 13 4 55 PM '98
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN
Commissioner – Chairman

RENZ JENNINGS
Commissioner

CARL J. KUNASEK,
Commissioner

IN THE MATTER OF THE COMPLETION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA	) DOCKET NO. U-0000-94-165)) **CITY OF TUCSON'S POST-**) **HEARING MEMORANDUM**

Arizona Corporation Commission
DOCKETED
MAR 13 1998
DOCKETED BY

On Behalf of

THE CITY OF TUCSON

MARCH 13, 1998

INTRODUCTION

Before addressing the questions posed in the Procedural Orders in this docket, the City will set out two fundamental issues that are critical to the discussion of stranded costs. First, there is no regulatory compact in the legal sense of implied, implicit or explicit contract. Second, the affected utilities should be required to file their estimates or range of estimates in this docket so that the Commission may make informed policy decisions.

The Regulatory Compact

As will be discussed more fully in the legal issues section below, there is no support for the notion that because the affected utilities are regulated a compact exists that requires the Commission to award 100% of "unmitigated stranded costs" as implied in R14-2-1607B. There is no contract obliging the people of Arizona to pay for uneconomic costs regardless of the mechanism(s) which cause costs to become uneconomic.[1]

If there is a "social compact" it has not been and is not a contract guaranteeing perpetual monopoly freedom from competition or full cost recovery. (DT Rose, pp. 2 & 3; DT Coyle, p. 5) The better reasoned approach to "stranded costs" is to "determine the amount necessary to maintain the financial stability of the utility. This may be an amount to pay the company's debts and perhaps a reduced rate of return. This approach changes the focus from rate base and expense items to the maintenance of

---

[1] Staff's witness, Dr. Kenneth Rose, discusses "regulatory compact" as a metaphor for how utilities are regulated. He points out that the so-called regulatory compact developed as a surrogate for competition. (DT Rose, pp. 2 & 3)

the financial integrity of the utility. (DT Rose, pp. 16 & 17) The "financial stability" approach avoids the wrangling over the existence or non-existence of a regulatory compact, legal or social, and the associated claims of 100% cost recovery. Instead, if recovery is to be allowed, the Commission may make its decision on what is in the community's best interests, minimizing impacts on ratepayers and maintaining a viable utility.[2]

Estimates of Stranded Costs Should be Filed in This Docket

The questions addressed in this docket illustrate the complex nature of stranded costs and recovery. Several methodologies have been proffered by the various parties. However, these approaches are discussed in the abstract. There is no way for the Commission to measure the impact of adopting one method over another, of prescribing a time from over which costs are calculated, a recovery timeframe, how and who should pay, who should be excluded, etc. These issues are complex and intertwined. (DT Coyle, pp. 5 & 6) Unless the Commission knows the magnitude of claims "there is no ability to gauge the fairness or impacts on competition that should guide policy-making." (DT Coyle, p. 6, 11, 33 & 34)

The Commission could reasonably find from the testimony that has been submitted over the last several weeks, that there is no one size fits all answer to stranded costs. In lieu of requiring filing in this docket, the Commission could order each affected utility to file in individual dockets. Then, the Commission can analyze

[2] TEP witness Charles Bayless testified that a reduced rate of return would be acceptable if there was less risk of recovery. (TR. Bayless, pp. 1614-1615)

each filing on a case-by-case basis and tailor a solution that is suitable to the facts of the specific utility.

The Procedural Order Issues

Issue No. 1: Should electric competition rules be modified regarding stranded costs? If so, how?

The City believes that the most fundamental issue regarding electric competition rules is to determine whether or not they help accomplish the goals to protect consumers in advanced competition in the public interest. To further that goal, we recommend that certain concepts be incorporated into the rules. First, it should be made clear that the burden of proof is on the affected utilities. Second, we recommend that the affected utilities file stranded cost estimates and associated work papers as soon as possible and before the Commission finishes taking testimony or makes a decision in this docket. Third, regarding Rule R-14-1607B, which states the Commission shall allow recovery of unmitigated stranded costs by utilities, it is important to change the term "unmitigated" to "unmitigatable". Such wording would make it clear that the burden of showing a level of effort and success rests with the utilities and not with the Commission or intervenors to demonstrate that not every measure possible has been taken. Fourth, the Commission must be able to maintain a broad scope of review as currently indicated in R-14-2-1607A to, among other things, ensure that customers of a regulated utility and the same customers as taxpayers not be at risk for non-regulated business. Fifth, Tucson also recommends that Rule 14-2-1607J be modified by striking the fourth word of that rule, "only". The Rule would then read, "Stranded costs may be recovered from customer purchases made in the competitive market using the provisions of this article..." This change will give the Commission flexibility to assure that there will be no cost shifting among customer classes, or from the utility to consumers. Finally, economic savings on electric rates should not be shifted to increase tax burdens. Any guidance from the rules should assure that there are neutral impacts on tax revenue streams. (DT Coyle, pp. 4-10)

Issue No. 2: When should affected utilities be required to make stranded cost filing pursuant to AAC R-14-2-1607?

In the opinion of the City of Tucson as stated above, the affected utility should be required to make stranded cost filing immediately during this docket so the Commission's decision can be informed by the estimates presented. (DT Coyle, p. 10)

Issue No. 3: What costs should be included as part of stranded costs and how should these costs be calculated?

There are two levels at which to answer the question posed by Issue No. 3. The first level addresses whether or not utilities have already been compensated for their risks so that there would not be stranded costs. It must first be determined whether or not the Commission in past decisions on rate of return provided a risk premium which compensated a utility for the risk of change in the regulatory regime. If customers have already been required to recover the utilities' risks, then the Commission should not ask customers to pay a second time for that same risk in stranded costs. In determining the cost of capital, did the Commission acknowledge when it allowed a specific return, risks and calculated that return accordingly? The stockholders always bear a risk of sales not reaching the forecasted level, the risk of spikes in fuel costs, etc. But part of the premium allowed for the risk may have in fact paid the shareholders for the risk of a changing industry structure. The determination of whether or not these risks have already been compensated can be determined by looking at past decisions of the Commission relative to the particular utility. (DT Coyle, pp. 1 & 2)

The second level of inquiry in answering what costs should be included in stranded costs is to consider whether or not these costs should include anything at all above what has already been compensated for. This is the issue of whether or not a regulatory compact requires commissions to award full recovery of stranded costs. Tucson does not agree with the report of the Stranded Costs Working Group that there is no basis for the affected utilities to absorb some of the stranded costs. It is not a question of prudency of the expenditures at the time they were made; the issue is whether or not a regulatory compact exists which requires the Commission to give the affected utilities 100% of their unmitigated stranded costs. Utilities have always been concerned about competitive threats from new technology and customers leaving the system. (DT Coyle, pp. 12 & 13) Notwithstanding the fact that there is no regulatory compact, the Commission, if it finds that in fact there are stranded costs for one or more utilities, can make a judgment about how those costs should be apportioned between customers and investors. (DT Coyle, p. 14)

Several methods for how stranded costs should be calculated have been suggested by the parties. They include two administrative methodologies and two market-based approaches. The administrative methodologies are the net revenues lost approach and the replacement cost valuation. The market-based approaches are auction and divestiture and stock market valuation. Each of these methodologies has its drawbacks; some have more than others. Tucson feels that the replacement cost valuation approach changed in the way it is described below is superior to the other three approaches.

Replacement Cost Valuation

Stranded costs, either positive or negative, arise because of the difference between the cost to serve on an imbedded cost service basis and what costs would be or would be expected to be on an unregulated market. It seems reasonable then to approach the calculation by trying to identify what the difference between imbedded costs and unregulated costs would be. An asset by asset approach or bottom-up approach can take into account the competitive merits of a particular generating asset. The Stranded Costs Working Group report needs some alteration to result in what will be a reasonable way to calculate stranded costs based on replacement cost value. The Working Group report suggests that stranded costs be calculated as the difference between the reported net value of generation assets and their current replacement value based on the most cost effective technology available on the market – a gas-fired combined cycle combustion turbine. As was pointed out in Tucson's testimony, it is not reasonable to assume that each plant is going to be replaced by a new combined cycle combustion turbine. (DT Coyle, p. 15) To make that assumption would result in a substantial overstatement of stranded costs. The price in the market will not be driven by the lowest cost unit, but rather by the most expensive unit that actually gets dispatched. It is also important to note that any price drop in electricity following deregulation of generation will occur because of excess capacity. Utilities' earnings have always been burdened when they have excess capacity and a special provision for stranded costs should not be made merely as a result of excess capacity. Any payment for stranded costs should not be because of a cyclical problem of excess capacity, but rather because of permanent change in institutional arrangements. (DT Coyle, p. 16) Another key element in the bottom-up calculation of stranded costs is the estimated price of an efficient new power plant. Currently, there is an over-capacity in the turbine market and prices for CCCTs are depressed. In other words, there is excess capacity in the turbine industry. Higher prices will follow if demand for the units increases and the turbine industry shake-out has occurred. Any calculation of stranded costs in electric power must be adjusted so that a cyclically low price in turbine market does not unjustly result in a windfall for shareholders. (DT Coyle, p. 17) In addition to adjusting for excess generation capacity and adjusting for the business cycle in gas turbines, the price of electric generation must be calculated. Price and cost are not the same thing. As was fully explained in Tucson's testimony, the price of power is not going to be driven down to the cost of the output from the most cost effective technology available. Calculating stranded costs by comparing the costs from an existing plant to the most cost effective technology available would substantially overstate the stranded costs and hence be unfair to those burdened with paying. (DT Coyle, pp. 20-22) Taking into account the foregoing, Tucson feels the replacement cost valuation approach is the most reasonable of the methodologies discussed.

Net Revenues Lost

The net revenues lost approach is seriously flawed and is based on a profound misconception. This approach is a top-down quantification that compares the expected future annual revenues for the affected utilities' generation business under a traditional cost-based regulation with the annual revenues expected to be recovered in a competitive generation market with prices based on marginal cost. (Working Group Report, p. 20) Prices will never equal marginal cost. If marginal cost is lower than average cost, setting price to marginal cost means money lost on every unit sold. The Commission should look beyond basic economic theory and beginning text books and consider what will actually unfold in electric power and that is the prospect of ogligopoly pricing. Power plants will come into stronger hands. There will be fewer generators and prices will be stabilized at a profitable level, which means that prices will not necessarily be driven down to costs and, in fact, probably will not be. As well as failing to consider the reality of the industry and the inevitability of ogligopoly pricing, the net revenues lost approach is based on an assumption that under regulation there would have been no changes in the economy, technology, or society over a long period of time. When the Commission permits rates intended to afford the utility an opportunity to earn a fair rate of return, there is a risk premium in the figure allowed. The bond lenders and the common shareholders are not guaranteed that the industry will continue to be healthy; they are paid to take that risk. The net revenues lost approach proposes to absolve them of that risk. (DT Coyle, pp. 20-24)

Auction and divestiture

The more attractive market approach is auction and divestiture. Under this approach, generating assets would be put on the market for bids and sold. A clear price would be paid by a willing buyer, a valuation which has strong support. While the option approach has significant appeal, it will not in Tucson's view reduce or eliminate market power. (DT Coyle, p. 25)

Stock Market Valuation Approach

A fundamental problem with the stock market valuation approach is that it is based on an assumption that the price of a share equals book value. How the stock market in the future will value stand-alone distribution or transmission utilities remains to be seen. Another problem with this is a single moment in time on the stock market at which value would be revealed, trading might be thin, and there may be external factors at that particular time that would skew the outcome on any particular day. Tucson recommends that this approach be rejected. (DT Coyle, p. 25)

In any calculation of stranded costs, transmission rules and constraints need to be incorporated into the analysis. Reliability in voltage support, that is must-run plants, may exist, such as was the case in California. A plant near a large load center may be worth more because of these factors than a similar plant. Moreover, to the extent that existing transmission opens up new opportunities in the unregulated market, the gains from that should be taken as mitigation for stranded costs. (DT Coyle, p. 26)

Issue No. 4: Should there be a limitation on the timeframe over which stranded costs are calculated?

The Working Group report suggested that the horizon stretch out to include all of the years that a utility expected a generating asset to be producing energy for the market for the net revenues lost approach. However, that statement does not account for new technologies and self generation possibilities that have always been a risk. Indeed, other social issues such as those raised at the conference on climate change suggest that one cannot accurately report or depend on a utility to be generating a particular amount of income over the long run. The net revenues lost approach assumes utility investments are guaranteed by ratepayers to be risk free. (DT Coyle, p. 27) More generally, the question of the timeframe over which stranded costs are calculated is conflicted by competing needs. The first need is for the Commission to consider a fairly extended time horizon as it watches developments in the industry. Finalizing policy decisions is problematic in a time of flux. In addition, the Commission needs to have estimates of stranded costs from the affected utilities. This suggests a fairly extended time horizon for the Commission to consider. The competing element is the need to limit the time over which stranded costs are calculated because in a fairly short time it will become difficult to sort out the effects on asset prices of the changing regulatory regime and from the effects of general economic changes and technological developments, as well as the possibility of deflation in our economy. (DT Coyle, pp. 27 & 29)

Issue No. 5: Should there be a limitation on the recovery timeframe for stranded costs?

This is another one of those issues that should be deferred until the affected utilities have filed their estimates of what stranded costs would be. If the estimated costs asserted are large, then rates might have to go up. This is because current rates include the cost of depreciating the generating plant over its useful life. If the Commission now shortens the collection of that depreciation to, say, five years, the monthly payment might jump. In the view of the City of Tucson the Commission must take into consideration the impact on customers if and when it sets a timeframe for the recovery of the stranded costs. Moreover, if the stranded costs are collected over a short period of time, senior citizens may make those large payments and then not be here to get any of the benefits that are supposed to flow from the restructuring. This type of generational equity should be considered in determining the length of time over which stranded costs are to be recovered. On the other hand, stretching the recovery period over a long number of years associated with the useful life of the assets could result in a confounding of circumstances which would lead the utilities back for another bite at stranded costs as was discussed earlier in the discussion on the possibility of deflation. (DT Coyle, pp. 29-32)

Issue No. 6: How and who should pay for stranded costs and who, if anyone, should be excluded from paying stranded costs?

The City of Tucson feels that any customer who had a right prior to restructuring of the industry to purchase power from another supplier should be excluded from paying stranded costs. As far as how stranded costs should be paid for, if there is a finding of a positive stranded cost, the cost should be paid in a kilowatt per hour charge. A customer or other fixed charge should be avoided to minimize any shifting of stranded costs between classes. The City agrees with the Stranded Cost Working Group about the allocation of stranded costs. That is, "Stranded costs should be allocated to jurisdictions and classes in a manner consistent with a specific company's current rate treatment of the stranded asset in order to effect a recovery of stranded costs that is substantially in the same proportion as the recovery of similar costs from customers or customer classes under current rates." Finally, interruptible customers should pay the full share of stranded costs. Theoretically, the only reason these customers are getting interruptible rates is that the system has excess capacity. Over time, as excess capacity disappears, interruptible customers might being paying a full share, and hence a full share of any stranded costs should be required. (DT Coyle, pp. 33-34)

Issue No. 7: Should there be a true-up mechanism and, if so, how would it operate?

The City of Tucson advocates that there be a true-up mechanism, but that the design of that mechanism must await the Commission's decision on other issues. It should be among the last decisions the Commission makes on stranded costs. The goal of the true-up mechanism is to adjust the not paid for stranded costs so that all parties are treated fairly. Until the interacting elements of determining stranded costs, including price freeze and price cap are determined, the design of the true-up mechanism should be deferred. (DT Coyle, p. 35)

Issue No. 8: Should there be price caps or a rate freeze imposed as part of the development of the stranded costs recovery program and, if so, how should it be calculated?

A rate freeze should not be imposed as part of the development of the stranded costs recovery program because a rate freeze will not recover stranded costs unless rates are already unjustly high or a drop in utility costs is about to occur, or both. If a rate freeze were to be adopted, the adoption should be conditioned on the Commission first holding a full rate case for each affected utility. The Commission needs to know how much cash a rate freeze at existing rates would provide for the recovery of stranded costs. A rate case would make that determination. (DT Coyle, p. 36)

While price caps are more reasonable than rate freezes, they are not without significant problems of their own. Under traditional regulation, rates and profits would be based on the cost of service, but the connection between costs and prices is severed or severely weakened under a price cap regime. A price cap is merely a formal built-in regulatory lag where the cap is set for a significant number of years before adjustment. It is better policy to regulate on a cost-of-service basis without a formal or long regulatory lag. Moreover, without adequate safeguards a utility is free to reduce its rates, but not increase them. Under these circumstances, unless there is Commission oversight, a cap will leave a utility free to lower rates at its discretion so that it can use drops in costs to unfairly discriminate among customers. Leaving customers whose prices have not gone up will be harmful because their prices would have gone down under a cost-of-service regimen rather than a price cap regimen. Cross-subsidization must be constrained by Commission oversight and control. (DT Coyle, pp. 38-40)

Issue No. 9: What factors should be considered for mitigation of stranded costs?

As was suggested under Issue No. 1, the Commission should consider "mitigatable", along with "mitigated", in dealing with stranded costs. The Commission should reserve the right to compel the utilities to actually mitigate stranded costs or to penalize them if they do not. Moreover, new opportunities to profit from transmission transactions occurring as a result of restructuring should be used to mitigate. Tucson feels that it is important for the Commission to be able to review and respond to the other business enterprises of the regulated utilities to save customers from harm and capture as appropriate gains from non-utility enterprises. Additional factors that should be considered as mitigating stranded costs include changes in the value of the transmission system and, separately, the value of the distribution system. It is almost certain that both of these changes will be an increase in value. Because the increase in value will take place as a part of the restructuring, the increase should be used to mitigate stranded costs occurring as part of the same restructuring. There are at least two ways that theses systems will increase in value. One, the cost for capital for transmission and distribution will drop. That is, there is a corresponding rise in the value of the transmission and distribution systems. It is generally accepted that the risk involved for an investor is less for transmission and distribution than that involved in generation. Moreover, the distribution system becomes the key to "owning" customers.

The distribution system has a potential to be the high profit area of the electric power business in the future. The distribution business will become much more profitable in the future if the incumbent retains its customers. The distribution system will have extra profit potential because of restructuring, particularly if the incumbent utility is the default provider. This profit potential arises precisely because of restructuring. Therefore, it should be used in calculating mitigation. In addition to the foregoing, corporate management should be aggressive in attempting to lower costs, including renegotiating fuel contracts and other business measures to make a generating station more competitive. (DT Coyle, pp. 40-43)

Issue No. 10: **The recommended calculation methodology and assumptions made including any determination of market clearing price.**

A great deal of information gathering, study, and theorizing is necessary before a solid estimate of market clearing price can be made. Using a proxy, such as the Dow Jones Palo Verde Index, trivializes what is a very complex question. Numerous questions must be answered before a solid basis for developing reasonable estimates of stranded costs to find market clearing price. While it is outside the scope of Tucson's testimony to try to answer these questions, the point is that an attempt to find a definitive market clearing price without considering questions like the ones set forth in Coyle's testimony, and perhaps additional ones, is premature. (DT Coyle, pp. 43-46)

Legal Issues

At the hearing in this docket there was a great deal of discussion about the issue of a so-called regulatory compact. Witnesses were permitted to testify about the existence of said compact on the basis that they were merely giving their opinions. The Commission itself has previously rejected the argument that a regulatory compact exists when it adopted the electric competition rules in 1996. TEP appealed that decision and it has subsequently been affirmed by both Judge Dann and Judge Campbell. Therefore, the issue is no longer before the Commission and attempts to relitigate are barred. See *Tucson Electric Power Company v. Arizona Corporation Commission*, No. CV 97-03748 (Consolidated) (Minute Entry Order dated November 19, 1997); *Arizona Electric Power Cooperative, Inc. v. Arizona Corporation Commission*, No. CV 97-03920 (Consolidated) (Minute Entry Order dated January 16, 1998).

The Supreme Court of the United States in an appeal from the Supreme Court of Pennsylvania determined that states are not unnecessarily foreclosed from adopting alternative methods of valuation that could benefit both consumers and investors. States are free to decide what rate-setting methodology best meets their needs in balancing the interests of the utility and the public. The Commission is not bound by historical practices *ad infinitim*. To the contrary, the Commission is free to abandon one regulatory regime in favor of another where such change is found to be in the best interests of society. *Duquesne Light Company, et al. v. Barasch, et al.*, 488 U.S. 299 (1989). Examination of Arizona law does not change this result. Ea*ch v. City of Phoenix*, 427 P.2d 335, 102 Ariz. 195 (1967) does not mandate a contrary conclusion.

That case held that a city is bound by the same rules as a public corporation to the extent that it may not discriminate among members of the general public to whom its scope of operation extends. There is a considerable distance between that proposition and one that stands for a "regulatory compact" that says there will never be a change in regulatory methodology. The issue of regulatory compact has been decided both by this Commission and by appeal in the Superior Court. Moreover, cases raised by some of the witnesses in the hearing do not create a reason for reexamination even if one were legally permissible.

DATED this 13th day of March, 1998

THOMAS J. BERNING
City Attorney

Loretta Humphrey

Loretta Humphrey
Principal Assistant City Attorney
Office of the City Attorney
P.O. Box 27210
Tucson, AZ 85726-7210

AN ORIGINAL AND TEN COPIES of the foregoing City of Tucson's Post-Hearing Memorandum filed this 13th day of March, 1998, to:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Copy of the foregoing deposited in Docket Control Section of Arizona Corporation Commission this 13th day of March, 1998 to:

Arizona Corporation Commission
Attn.: Jerry Rudibaugh, Chief Hearing Officer

Arizona Corporation Commission
Attn.: Paul Bullis, Chief Counsel

Arizona Corporation Commission
Attn.: David Jankofsky, Assistant Director

Brown & Bain, P.A.
Attn.: Lex Smith

Citizens Utilities Company
Attn.: Craig Marks

Electric Competition Coalition
Attn.: Doug Nelson

Department of the Navy
Attn.: Norman Furuta
Sam DeFrawi

Tucson Electric Power Company
Attn.: Bradley S. Carroll

Residential Utility Consumer Office
Attn.: Deborah Scott

Fennemore Craig
Attn.: C. Webb Crockett

Arizona Public Service Company
Attn.: Barbara Klemstine

Land and Water Fund
Attn.: Bruce Driver

Goldwater Institute
Attn.: Robert Franciosi

Arizona Corporation Commission
Attn.: Chris Kempley

Navopache Electric Coop.
Attn.: Alan Propper

Copy of the foregoing mailed this 13th day of March, 1998 to:

Betty Pruitt
Arizona Community Action Association
202 E. McDowell, #255
Phoenix, AZ 85004

Phyllis Rowe
Arizona Consumers Council
6841 North 15th Place
Phoenix, AZ 85014

Russell E. Jones
O'Connor, Cavanagh, Molloy, Jones
33 North Stone Avenue, Suite 2100
P.O. Box 2268
Tucson, AZ 85702

Christopher Hitchcock
Hitchcock, Hicks & Conlogue
P.O. Box 87
Bisbee, AZ 85603-0087

Roderick G. McDougall, City Attorney
Jesse Sears, Assistant Chief Counsel
City of Phoenix
200 West Washington, Suite 1300
Phoenix, AZ 85003-1611

William J. Murphy
City of Phoenix
200 West Washington, Suite 1400
Phoenix, AZ 85003-1611

Andrew Bettwy
Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, Nevada 89102

Debra Jacobson
Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, Nevada 89102

Suzanne M. Dallimore
Antitrust Unit Chief
Department of Law Building
Attorney General's Office
1275 West Washington
Phoenix, AZ 85007

Carl W. Dabelstein
2211 East Edna Avenue
Phoenix, AZ 85022

Michael Block
Goldwater Institute
201 North Central Avenue
Phoenix, AZ 85004

Larry K. Udall
Arizona Municipal Power Users Association
2712 North Seventh Street
Phoenix, AZ 85006-1090

Jessica Youle
Salt River Project
PAB 300
P.O. Box 52025
Phoenix, AZ 85072-2025

Lawrence V. Robertson, Jr.
Munger Chadwick PLC
333 North Wilmot, Suite 300
Tucson, AZ 85711-2634

Tom Broderick
GP&E Energy Services
6900 East Camelback Road, Suite 800
Scottsdale, AZ 85251

Steve Wheeler
Thomas Mumaw
Snell & Wilmer
One Arizona Center
400 East Van Buren Street
Phoenix, AZ 85004-0001

Rick Gilliam
Land and Water Fund of the Rockies
2260 Baseline Road, Suite 200
Boulder, Colorado 80302

Michael A. Curtis
William P. Sullivan
Martinez & Curtis, P.C.
2712 North Seventh Street
Phoenix, AZ 85006-0372

Albert Sterman
Arizona Consumers Council
2849 East 8th Street
Tucson, AZ 85716

Walter W. Meek, President
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, AZ 85004

Elizabeth S. Firkins
International Brotherhood of Electrical Workers, L.U. #1116
750 South Tucson Boulevard
Tucson, AZ 85716-5698

Choi Lee
Phelps Dodge Corporation
2600 North Central Avenue
Phoenix, AZ 85004-3014

Myron L. Scott
Attorney at Law
1628 East Southern Avenue, No. 9-328
Tempe, AZ 85282-2179

Robert S. Lynch
Attorney at Law
340 East Palm Lane, Suite 140
Phoenix, AZ 85004-4529

K.R. Saline
K.R. Saline and Associates
160 North Pasadena, Suite 101
Mesa, AZ 85201-6764

Dan Neidlinger
3020 North 17th Drive
Phoenix, AZ 85015

Barbara R. Goldberg, Deputy City Attorney
Fredda J. Bisman, City Attorney
Office of the City Attorney
3939 Civic Center Boulevard
Scottsdale, AZ 85251

Terry Ross
Center for Energy and Economic Development
7853 East Arapahoe Court, Suite 2600
Englewood, Colorado 80112

Thomas W. Pickrell, Esq.
Arizona School Board Association, Inc.
2100 North Central Avenue
Phoenix, AZ 85004

Copy of the foregoing sent via Federal Express Mail this 13th day of March, 1998 to:

Michael M. Grant, Esq.
Gallagher & Kennedy, P.A.
2600 North Central Avenue
Phoenix, AZ 85004-3020

i:\1work\lr\dereg.doc